

No. 8 /2/DPNP

Jakarta, 30 January 2006

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

CONDUCTING BUSINESS ACTIVITIES UNDER CONVENTIONAL

PRINCIPLES

IN INDONESIA

Concerning : Implementation of Phasing In of Equal Quality Determination
for Earning Assets Given by More than One Bank to A
Particular Debtor or Project

In reference to the issuance of Bank Indonesia Regulation Number 8/2/PBI/2006 concerning Amendment to Bank Indonesia Regulation Number 7/2/PBI/2005 concerning Asset Quality Rating For Commercial Banks (State Gazette of The Republic of Indonesia Year 2006 Number 8/2/PBI/2006, Supplement to State Gazette of The Republic of Indonesia Number 4 of 2006) (PBI), it is considered necessary to stipulate the implementing regulation in a Bank Indonesia Circular Letter with the following main provisions :

I. GENERAL

- A. Considering the economic condition that had undergone a fairly significant turbulence recently, and in order to continue Banks' role in performing the intermediary function, transitional phases in the

implementation of Equal Quality for Earning Assets used to finance 1 (one) particular debtor or project (uniform classification) are deemed necessary.

- B. Among the transitional phases referred to in letter A are gradual implementation of uniform classification for Earning Assets given by more than 1 (one) Bank to finance 1 (one) particular debtor or project.
- C. The phases in uniform classification implementation as referred to in letter B shall be based on the debtor classification and/or Earning Asset limit at each Bank which is given to 1 (one) particular debtor or project.

II. EQUAL QUALITY IMPLEMENTATION PHASES

- A. As stipulated in Article 6 paragraph (2) letter a of the PBI, Banks must determine equal quality for Earning Assets given by more than 1 (one) Bank to finance 1 (one) particular debtor or project amounting to more than Rp500,000,000.00 (five hundred million rupiahs) at each Bank. In case of a difference in Earning Asset Quality determination by each Bank, the quality to be applied by each Bank for the Earning Asset shall be the lowest of the Earning Asset Qualities as stipulated in Article 6 paragraph (3) of the PBI.
- B. Article 8 of the PBI stipulates that Equal Quality determination for Earning Assets as referred to in letter A shall be implemented in phases. The phases shall be based on debtor classification and/or Earning Asset limit given by the Bank to 1 (one) particular debtor or project. The meaning of debtor classification is the 50 (fifty) biggest debtors of the Bank on an individual basis.

C. Phasing in of Equal Quality application for Bank's Earning Assets as referred to in letter B shall be done under the following provisions:

1. Since the enactment of the PBI, Banks must apply equal quality for :
 - a. Earning Assets given by each Bank to the 50 (fifty) biggest debtors of the Bank on an individual basis ; and/or
 - b. Earning Assets given by each Bank amounting to Rp25,000,000,000.00 (twenty five billion rupiahs) or more for 1 (one) particular debtor or project.
2. 6 (six) months since the enactment of the PBI, Banks must apply equal quality classification for :
 - a. Earning Assets given by each Bank to 50 (fifty) biggest debtors of Bank on individual basis ; and/or
 - b. Earning Assets given by each Bank amounting to Rp10,000,000,000.00 (ten billion rupiahs) or more for 1 (one) particular debtor or project.
3. 12 (twelve) months since the enactment of the PBI, Banks must apply equal quality classification for :
 - a. Earning Assets given by each Bank to 50 (fifty) biggest debtors of the Bank on an individual basis ; and/or
 - b. Earning Assets given by each Bank amounting to Rp5,000,000,000.00 (five billion rupiahs) or for 1 (one) particular debtor or project.
4. 18 (eighteen) months since the enactment of the PBI, Banks must apply equal quality for Earning Assets given by each Bank amounting to more than Rp500,000,000.00 (five hundred million rupiahs) for 1 (one) particular debtor or project.

The limits referred to in number 1, number 2, number 3, and number 4, shall be calculated for all facilities given to each debtor or project ,

both for individual debtors and for Group of debtors if the Earning Assets are used to finance a particular project.

Based on the aforementioned, for each phasing in period, the Earning Asset Quality of the Bank given to 1 (one) debtor or project which fulfills the provisions referred to in number 1, number 2, number 3, and number 4, must be equal to the Earning Asset Quality determined by another Bank for Earning Assets given by the other Bank to the particular debtor or project.

D. Phasing in of Equal Quality determination for Bank's Earning Assets as referred to in letter C shall be done for Earning Assets given by another Bank to the particular debtor or project which meet the following limits :

1. Earning Assets given by each Bank amounting to Rp25.000.000.000,00 (twenty five billion rupiahs) or more for 1 (one) particular debtor or project. This Earning Asset limit shall be valid since the enactment of the PBI.
2. Earning Assets given by each Bank amounting to Rp10,000,000,000.00 (ten billion rupiahs) or more for 1 (one) particular debtor or project. This Earning Asset limit shall be valid 6 (six) months since the enactment of the PBI.
3. Earning Assets given by each Bank amounting to Rp5,000,000,000.00 (five billion rupiahs) or more for 1 (one) particular debtor or project. This Earning Asset limit shall be valid 12 (twelve) months since the enactment of the PBI.
4. Earning Assets given by each Bank amounting to more than Rp500,000,000.00 (five hundred million rupiahs) for 1 (one) particular debtor or project. This Earning Asset limit shall be valid 18 (eighteen) months since the enactment of the PBI.

The limits referred to in number 1, number 2, number 3, and number 4, shall be calculated for all facilities given to each debtor or project, both for individual debtors and for Groups of Debtors if the Earning Assets are used to finance a particular project.

- E. In case of a difference between the Bank's Earning Asset quality which fulfills the phasing in provisions as referred to in letter C with the Earning Asset quality at another Bank for the particular debtor or project which meets the limit referred to in letter D, the Earning Asset Quality for the said debtor or project shall be the lowest of the Earning Asset Qualities. However, if the Earning Assets given to 1 (one) debtor or project fulfills the phasing in provisions as referred to in letter C, but the Earning Asset at the other Bank for the particular debtor or project does not meet the limit for the relevant phase as referred to in letter D, then the determination of Earning Asset Quality fulfilling the phasing in provision as referred to in letter C shall not be affected by the Earning Asset Quality given by the other Bank to the particular debtor or project.

Example :

- a. Debtor is among the 50 (fifty) biggest debtors of the Bank on an individual basis and receives a facility from another Bank amounting to less than the Limit

Debtor X is among the 50 (fifty) biggest debtors of Bank A. Debtor X also receives a facility from Bank B amounting to Rp20,000,000,000.00 (twenty billion rupiahs). The position for Earning Asset Quality evaluation is March 2006 and therefore the Earning Asset Limit at other Banks for the particular debtor or project to be considered in determining the quality for the period shall be Rp25,000,000,000.00 (twenty five billion rupiahs). Since

the amount of facility received by debtor X from Bank B is less than the limit stipulated for the period, then the determination of Debtor X's quality at Bank A shall not be affected by Debtor X's quality at Bank B.

- b. Debtor is among the 50 (fifty) biggest debtors of the Bank on an individual basis and receives a facility from another Bank amounting to equal to or more than the Limit

Debtor X is among the 50 (fifty) biggest debtors of Bank A. The Earning Asset Quality of Debtor X at Bank A is Special Mention. Debtor X also received a facility from Bank B amounting to Rp30,000,000,000.00 (thirty billion rupiahs), which is classified as Substandard. The position for Earning Asset Quality evaluation is March 2006 and therefore the Earning Asset limit from other Banks for the particular debtor or project to be considered in determining the Quality for the period shall be Rp25,000,000,000.00 (twenty five billion rupiahs). Since the amount of the facility received by Debtor X from Bank B is more than the limit stipulated for the period, then the determination of Debtor X's quality at Bank A shall be the lower of the Earning Asset Qualities, i.e. Substandard .

- c. Debtor is not among the 50 (fifty) biggest debtors of the Bank on an individual basis but received a facility of equal to or more than the Limit and receives a facility from another Bank amounting to less than the Limit

Debtor X is not among the 50 (fifty) biggest debtors of Bank A but received an Earning Asset facility amounting to Rp30,000,000,000.00 (thirty billion rupiahs), qualified as Special Mention. Debtor X also received a facility from Bank B amounting to Rp20,000,000,000.00 (twenty billion rupiahs),

qualified as Substandard. The position for Earning Asset Quality evaluation is March 2006 and therefore the Earning Asset limit at other Banks for the particular debtor or project to be considered in determining the Quality for the period shall be Rp25,000,000,000.00 (twenty five billion rupiahs). Since the amount of the facility received by Debtor X from Bank B is less than the limit stipulated for the period, the determination of Debtor X's quality at Bank A shall not be affected by the Earning Asset Quality at Bank B.

- d. Debtor is among the 50 (fifty) biggest debtors of the Bank on an individual basis, involved in 1 (one) project which receives a facility from another Bank at equal to or more than the Limit.

Bank X extends a loan facility to Debtor A and Debtor B at Rp14,000,000,000.00 (fourteen billion rupiahs) and Rp10,000,000,000.00 (ten billion rupiahs) consecutively and classified as Special Mention and Substandard. The loan facilities are used to finance Project Z. Debtor A is among the 50 (fifty) biggest debtors of Bank X. Since the loan facilities to Debtor A and Debtor B are used to finance a particular project, i.e. Project Z, then the Earning Asset Qualities stipulated by Bank X for the loans to Debtor A and Debtor B shall be the lower quality , i.e. Substandard .

Bank Y extends a loan facility to Debtor D and Debtor E at Rp20,000,000,000.00 (twenty billion rupiahs) consecutively and classified as Substandard and Doubtful. The loan facilities are used to finance a particular project, i.e. Project Z. Since the loan facilities to Debtor D and Debtor E are used to finance a particular project, i.e. Project Z, then the Earning Asset Quality determined

for Bank Y for loans to Debtor D and Debtor E shall be the lower quality, i.e. Doubtful.

The position for Earning Asset Quality evaluation shall be March 2006 and therefore the Earning Asset Limit at other Banks for a particular debtor or project to be considered in determining the quality for the period shall be Rp25,000,000,000.00 (twenty five billion rupiahs).

Considering that Debtor A is among the 50 (fifty) biggest debtors of Bank X and the loan facility given by Bank X to Debtor A is used to finance Project Z and the facility given by Bank Y for Project Z amounting to Rp40,000,000,000.00 (forty billion rupiahs) (more than the limit established for the evaluation period), then the determination of Earning Asset Quality for Debtor A at Bank X for Project Z must be equal to and shall be the lower quality, i.e. Earning Asset Quality for project Z at Bank Y (Doubtful). Furthermore, since the loan facilities to Debtor A and Debtor B at Bank X are used to finance the particular project, the Earning Asset Quality for Debtor B shall be the lower quality, i.e. Doubtful.

III. REPORTING

Article 7 paragraph (2) PBI stipulates that Banks must submit written information and explanation to Bank Indonesia in case of any differences in Earning Asset Quality determination due to factors referred to in Article 6 paragraph (4) letter a of the PBI. The written information and explanation shall be submitted to Bank Indonesia using the format as attached in Appendix I to this Bank Indonesia Circular Letter.

IV. CLOSING

Provisions in this Bank Indonesia Circular Letter shall start to take effect on 30 January 2006.

For the public to be informed, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

MAMAN H. SOMANTRI
DEPUTY GOVERNOR